

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 EURE-00 SS-15 NSC-05 NSCE-00 IO-11

AGR-10 AID-05 CEA-01 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 CIEP-02 SP-02 STR-04 TRSE-00 LAB-04

SIL-01 SAM-01 OMB-01 PA-02 PRS-01 USIE-00 SSO-00

INRE-00 L-03 H-02 NEA-10 /117 W  
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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC IMMEDIATE 752

INFO ALL EC CAPITALS PRIORITY 1838

AMEMBASSY BERN PRIORITY

AMEMBASSY OSLO PRIORITY

AMEMBASSY OTTAWA PRIORITY

AMEMBASSY STOCKHOLM PRIORITY

AMEMBASSY TOKYO PRIORITY

AMEMBASSY VIENNA PRIORITY

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E.O. 11652: N/A

TAGS: EFIN,EEC

SUBJECT: FRENCH AND BELGIAN FINANCE MINISTERS GIVE PRESS STATEMENTS ON FRENCH DECISION TO SUSPEND PARTICIPATION IN SNAKE

REF: A) EC BRUSSELS 2586, B) EC BRUSSELS 2390

1. SUMMARY: IN SEPARATE PRESS CONFERENCES ON MARCH 15 FRENCH AND BELGIAN FINANCE MINISTERS FOURCADE AND DECLERCQ ASSESSED THE IMPACT OF THE DECISION TO FLOAT THE FF (SEE REF A). FOURCADE SAID THE GOF PLANNED TO CONTINUE TO INTERVENE IN EXCHANGE MARKETS AND IT DID NOT INTEND TO FOLLOW A POLICY OF RATE DEPRECIATION TO GAIN A COMPETITIVE TRADE ADVANTAGE. DECLERCQ REGRETTED THE GOF'S DECISION BUT SAID THE COHESIVENESS OF THE SNAKE WAS NOT IN JEOPARDY. THE BENELUX COUNTRIES, HOWEVER, UNCLASSIFIED

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HAD DISCONTINUED THEIR POLICY OF KEEPING THE MARGINS

OF THEIR CURRENCIES WITHIN 1.5 PERCENT. END SUMMARY.

2. FRENCH FINANCE MINISTER FOURCADE MADE A STATEMENT TO THE PRESS ON MARCH 15 IN BRUSSELS REGARDING THE GOF'S DECISION TO SUSPEND PARTICIPATION IN THE EUROPEAN MONETARY SNAKE AND TO FLOAT. THE FOLLOWING SUMMARY IS AN INFORMAL MISSION TRANSLATION OF FOURCADE'S REMARKS. FOURCADE SAID THAT THE DECISION TO FLOAT DID NOT MEAN THAT THE GOF WOULD NOT INTERVENE IN EXCHANGE MARKETS; INDEED, FRANCE WAS DETERMINED TO CONTINUE INTERVENING. FRANCE DID NOT PLAN TO TAKE ADVANTAGE OF ITS FLOAT TO PROMOTE ITS EXPORTS. IN FACT, FREE FLOATING WITHOUT EFFORTS TO STABILIZE EXCHANGE RATES SHOULD BE FORBIDDEN.

3. FOURCADE CONTINUED THAT THE WEAKNESS THE LIRA HAD CAUSED THE GOF TO SPEND 2 BILLION FF IN JANUARY AND ANOTHER 4 BILLION FF IN FEBRUARY TO SUPPORT THE FF. DURING THE FIRST TWO WEEKS OF MARCH THE RUN ON THE POUND STERLING HAD COST FRANCE ANOTHER 8 BILLION FF. IN FACT, ON MARCH 12 ALONE THE GOF SPENT 4 BILLION FF ON INTERVENTIONS.

4. FOURCADE ADDED THAT THE EC COUNCIL'S RECENT DECISION TO ADOPT A NEW GREEN RATE FOR THE FF OF 5.55 WOULD NOT BE APPLIED (SEE PARA 4, REF B). (THE EC COMMISSION SPOKESMAN, HOWEVER, DISPUTED THIS POINT. THE SPOKESMAN SAID NO DECISION HAD YET BEEN TAKEN.)

5. BELGIAN FINANCE MINISTER DECLERCQ, WHO IS THE CHAIRMAN OF THE SNAKE MINISTERS' COMMITTEE, MADE A STATEMENT TO THE PRESS SEPARATE FROM THAT OF FOURCADE'S. HE SAID THAT AFTER A LONG AND AGITATED NIGHT HE WANTED TO COMMENT ON THE FRENCH DECISION. FROM A EUROPEAN POINT OF VIEW HE REGRETTED THAT DEPARTURE OF THE FF BECAUSE THE SNAKE WAS AN INSTRUMENT TO MAINTAIN RELATIVE STABILITY ON EXCHANGE MARKETS. THE SNAKE WAS ALSO A PRE-CONDITION TO EUROPEAN ECONOMIC INTEGRATION AND EC ECONOMIC AND MONETARY UNION. HE NOTED THAT THE GOF HAD EXPRESSED THE HOPE THAT IT WOULD LATER BE ABLE

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TO RE-JOIN THE SNAKE.

6. DECLERCQ WENT ON TO SAY THAT THE FRENCH DEPARTURE DID NOT IMPERIL THE SNAKE. THE SNAKE WAS STILL AN EFFECTIVE INSTRUMENT. THE COHESION OF THE REMAINING PARTICIPANTS HAD NOT BEEN SHAKEN. IN FACT, DURING THIS TURBULENT PERIOD IN EXCHANGE MARKETS, THE SNAKE HAD PERFORMED WELL. AFTER THE PRESS CONFERENCE,

DECLERCQ WAS ASKED WHY THE GOF HAS DECIDED TO LEAVE THE SNAKE RATHER THAN TO DEVALUE WITHIN IT. HE REPLIED THAT HE WAS SURPRISED AT THIS DECISION. FOR TECHNICAL REASONS THE BENELUX COUNTRIES HAD GIVEN UP THE "WORM" WITHIN THE SNAKE, I.E., KEEPING THEIR RATES WITHIN A MARGIN OF 1.5 PERCENT RATHER THAN THE SNAKE MARGIN OF 2.5 PERCENT. THE MARGINS FOR THE BENELUX RATES WOULD NOW BE THE SAME AS THE SNAKE'S. (COMMENT: OUR SOURCES SAY THAT THE DIFFERENT BALANCE OF PAYMENTS SITUATIONS BETWEEN BELGIUM AND THE NETHERLANDS ARE A MAIN FACTOR IN TERMINATING THE "WORM".)

7. DECLERCQ THEN TURNED TO THE IMPACT OF THE FRENCH DECISION ON BELGIUM. HE SAID THAT AS OF 11 A.M, MARCH 15 THE FF RATE HAD DEPRECIATED BY ABOUT 4 PERCENT AGAINST THE BF. THIS DEPRECIATION WOULD MEAN CHEAPER BELGIAN IMPORTS WHICH WOULD HELP STEM INFLATIONARY PRESSURES. BELGIAN EXPORTS, HOWEVER, RELATIVE TO THOSE OF FRANCE, WOULD BE MORE EXPENSIVE AND FRANCE'S COMPETITIVE TRADE POSITION WOULD BE IMPROVED IN THIRD MARKETS. DECLERCQ, NEVERTHELESS, DID NOT EXPECT THE VOLUME OF BELGIAN EXPORTS TO BE SIGNIFICANTLY AFFECTED.  
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